

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 93-738-W/S - ORDER NO. 94-484 ✓  
MAY 31, 1994

IN RE:	Application of Carolina Water Service,	)	ORDER
	Inc. for Approval of New Schedules of	)	APPROVING
	Rates and Charges for Water and Sewer	)	RATES AND
	Service Provided to its Customers in	)	CHARGES
	its Service Area in South Carolina.	)	

I.

INTRODUCTION

This matter is before the Public Service Commission of South Carolina (the Commission) on the December 29, 1993, Application of Carolina Water Service, Inc. (the Company or CWS) for approval of a new schedule of rates and charges for water and sewer service provided to its customers in its service area in South Carolina.<sup>1</sup> The Application was filed pursuant to S.C. Code Ann. §58-5-240 (1976), as amended, and 26 S.C. Regs. 103-821 (1976).

By letter dated February 3, 1994, the Commission's Executive Director instructed the Company to cause to be published a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's

---

1. On January 31, 1994, CWS filed a revised Application updating the test year to June 30, 1993 in accordance with Commission Order No. 94-34 (January 12, 1994).

Application and advised all interested parties desiring participation in the scheduled proceeding of the manner and time in which to file the appropriate pleadings. The Company was likewise required to directly notify all customers affected by the proposed rates and charges. The Company furnished affidavits demonstrating that the notice had been duly published in accordance with the instructions of the Executive Director and certified that a copy of the notice had been mailed to each customer affected by the rates and charges proposed in the Company's Application. Petitions to Intervene were filed on behalf of Steven W. Hamm, the Consumer Advocate for the State of South Carolina (the Consumer Advocate), and Michael C. Watford, Sr. (Mr. Watford).

The Company's presently authorized rates and charges were approved by Order No. 93-402, issued on May 11, 1993, in Docket No. 91-641-W/S. According to CWS' Application, the proposed rates and charges would increase water revenue by approximately \$301,304, or 18%, on average, and sewer revenue by approximately \$484,805 or 14.5%, on average.

The Commission Staff (the Staff) made on-site investigations of the Company's facilities, audited the Company's books and records, and gathered other detailed information concerning the Company's operations. The Consumer Advocate likewise conducted discovery in the rate filing of CWS.

A public hearing relative to the matters asserted in the Company's revised Application was commenced on May 11, 1994 in the

Commission's Hearing Room. A public night hearing was held on the evening of May 11, 1993. Pursuant to S.C. Code Ann. §58-3-95 (Supp. 1993), a panel of three Commission members composed of Chairman Yonce, presiding, and Commissioners Bowers and Arthur, was designated to hear and rule on this matter. William F. Austin, Esquire, and Richard L. Whitt, Esquire, represented the Company; Elliott F. Elam, Jr., Esquire, represented the Consumer Advocate; Mr. Watford appeared pro se; and Gayle B. Nichols, Staff Counsel, and Florence P. Belser, Staff Counsel, represented the Commission Staff.

The Company presented the testimony of Keith A. Murphy, Regional Director of CWS' Operations for South Carolina; Patricia M. Cuddie, Manager of Regulatory Accounting for both Utilities, Inc.<sup>2</sup> and CWS; Dolly H. Lewis, CWS Branch Office Manager in the Columbia area; and Robert M. Spann, Vice President of Charles River Associates.<sup>3</sup> The Consumer Advocate presented Michael A. Bleiweis of The Woodside Group, Inc. to testify as to its recommendations. The Commission Staff presented Norbert M. Thomas, Public Utilities Accountant, and Robert W. Burgess, Rate Analyst of the Commission's Water and Wastewater Department, to report Staff's findings and recommendations. Mr. Watford testified on his own behalf and subpoenaed Sam Davis of CWS. In

---

2. Utilities, Inc. is the parent company of CWS.

3. Mr. Spann did not appear in person. Instead, his pre-filed testimony was copied into the record without objection from any party.

addition, Ben Wiggins testified on behalf of the Harborside Homeowners' Community and Lowell C. Spires, Jr. presented his views as a member of the Lexington County Council. One public witness appeared to testify at the night hearing.

## II.

### FINDINGS OF FACT

Based upon the Application, the testimony and exhibits received into evidence at the hearing, and the entire record of these proceedings, the Commission now makes the following findings of fact:

1. CWS is a water and sewer utility providing water and sewer service in its service areas within South Carolina, and its operations in South Carolina are subject to the jurisdiction of the Commission, pursuant to S.C. Code Ann. §58-5-10, et seq. (1976), as amended.

2. The appropriate test period for the purposes of this proceeding is the twelve-month period ending June 30, 1993.

3. By its Application, the Company is seeking an increase in its rates and charges for water and sewer service of \$786,109 which Staff has calculated to be \$804,492.

4. The appropriate operating revenues for the Company for the test year under present rates and after accounting and pro forma adjustments are \$4,678,337 which reflects a reduction in per book revenues.

5. The appropriate operating revenues under the approved rates are \$5,342,879 which reflects a net authorized increase in

operating revenues of \$664,542.

6. The appropriate operating expenses for the Company's South Carolina operations for the test year under its present rates and after accounting and pro forma adjustments are \$3,815,693, which reflects a decrease in per book expenses of (\$215,886).

7. The appropriate operating expenses under the approved rates are \$4,068,817.

8. The Company's reasonable and appropriate federal and state income tax expense should be based on the use of a 34% federal tax rate and a 5.0% state tax rate, respectively.

9. The Company's appropriate level of net operating income for return after accounting and pro forma adjustments is \$880,296.

10. The appropriate net income for return under the rates approved and after all accounting and pro forma adjustments is \$1,300,536.

11. A year end, original cost rate base of \$10,653,070 consisting of the components set forth in Table B of this Order, should be adopted.

12. The Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and the fixing of just and reasonable rates.

13. A fair operating margin that the Company should have the opportunity to earn is 13.86% which is produced by the appropriate level of revenues and expenses found reasonable and approved herein.

14. CWS' Motion to Withdraw the Riverhills Subdivision from consideration in this rate case is granted.

15. The rate designs and rate schedules approved by the Commission and the modifications thereto as described herein are appropriate and should be adopted.

16. The rates and charges depicted in Appendix A, attached herein, and incorporated by reference, are approved and effective for service rendered on and after the date of this Order.

17. While the Commission recognizes the potential health benefits associated with fluoride, the Commission believes that the decision of whether or not fluoride should be added to its water is one for the Company's management. Further, this Commission does not have the authority to require a utility to add chemicals to its system. This issue would be more properly addressed by the South Carolina Department of Health & Environmental Control.

### III.

#### EVIDENCE AND CONCLUSIONS

##### EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 1

The evidence supporting this finding concerning the Company's business and legal status is contained in the Company's Application and in prior Commission Orders in the docket files of which the Commission takes notice. This finding of fact is essentially informational, procedural, and jurisdictional in nature, and the matters which it involves are essentially uncontested.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 2 AND 3.

The evidence for these findings concerning the test period and the amount of the revenue increase requested by the Company is contained in the Application of the Company and the testimony and exhibits of the Company's witnesses.

On January 31, 1994, the Company filed a revised Application requesting approval of rate schedules designed to produce an increase in gross revenues of \$786,109 which Staff calculated using the appropriate billing units to be \$804,492. The Company's filing was based on a test period consisting of the 12 months ending June 30, 1993. The Commission Staff and the parties of record herein likewise offered their evidence generally within the context of that same test period.

A fundamental principle of the ratemaking process is the establishment of a test year period. Integral to the use of a test year, representing normal operating conditions to be anticipated in the future, is the necessity to make normalizing adjustments to the historic test year figures. Only those adjustments which have reasonable and definite characteristics, and which tend to influence reflected operating experiences are made to give proper consideration to revenues, expenses, and investments. Parker v. South Carolina Public Service Commission, et.al., 280 S.C. 310, 313 S.E. 2d 290 (1984). Adjustments may be allowed for items occurring in the historic test year, but which will not recur in the future; or to give effect to items of an extraordinary nature by either normalizing or annualizing such

items to reflect more accurately their annual impact; or to give effect to any other item which should have been included or excluded during the historic test year. Where an expense is significantly larger during the test year than any preceding year, it is incumbent upon the Commission to determine whether the expense reasonably projects future expenses. Hamm v. Public Service Commission of South Carolina, \_\_\_S.C.\_\_\_, 422 S.E. 2d 110 (1992). The Commission finds the twelve months ending June 30, 1993, to be the reasonable period for which to make its ratemaking determinations herein.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 4 AND 5.

The evidence for the findings concerning the adjusted level of operating revenues is found in the testimony and exhibits of Company witness Cuddie and Commission Staff witness Burgess. (See, Hearing Exhibit Nos. 4 and 9). The Company and Staff agreed on the adjustments to revenues. Therefore, for the purposes of this proceeding, the appropriate operating revenues for the Company for the test year under the present rates and after accounting and pro forma adjustments are \$4,678,337 which reflects a \$50,192 decrease in revenues. Using the Commission's Finding of Fact No. 13 and the Evidence and Conclusions, infra., approving a 13.86% operating margin, the Company's operating revenues after the approved increase are \$5,342,879.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 6, 7, AND 8.

Certain adjustments affecting expenses were included in the exhibits and testimony offered by witnesses Cuddie and Murphy for

the Company, witness Bleiweis for the Consumer Advocate, and witnesses Thomas and Burgess for the Commission Staff. (See Hearing Exhibit Nos. 2, 4, 6, 8, and 9) This Order will address and detail only those accounting and pro forma adjustments affecting expenses which differed between the Company, the Consumer Advocate, and the Commission Staff.

Office and Operators' Salaries, Related Benefits and Taxes

The Company and Staff proposed to annualize operators' and office salaries at November 10, 1993, to reflect a known and measurable increase in the salaries of certain of these employees. The Staff, however, removed the salaries for three (3) operator positions<sup>4</sup> which were not filled during the test year. As noted by CWS' responses to Consumer Advocate Interrogatory 2-1(c), "[t]he Company has been re-evaluating its staffing and has placed the hiring of these employees on hold. It is unknown when or if these positions will be filled." Hearing Exhibit 7. At the hearing witness Murphy testified that while the Company still had not filled the three operator positions, "[t]he hiring of these operators is essential to providing quality service and meeting regulatory requirements." Tr. Vol. 2, at 182.

Further, in regard to salaries, the Consumer Advocate recommended that the average salary increase of 8% for operators and 6.52% for office salaries be decreased to 5% in light of the current economic times. The Company testified that the average

---

4. The salary per open position is \$28,000.

yearly increase was 4% for operators' salaries and 3.25% for office salaries, rather than the percentages stated by the Consumer Advocate. Tr. Vol. 2, at 183. The Company explained that the Consumer Advocate derived its percentage increases by comparing salaries from December 31, 1992 to November 11, 1993, which included increases on both July 1, 1992 and July 1, 1993, rather than the one test year increase on July 1, 1992.

Finally, the Consumer Advocate contended that the test year capitalization of 5.74% was less than that of the prior two years and that the Commission should therefore normalize the capitalization of operators' salaries using a 3-year percentage of 8.85%. The Company explained that its operators spent 50% less time on capital projects during the test year and, consequently, a smaller percentage of its operators' salaries was capitalized.

The Commission adopts the Staff's recommendations in regard to Office and Operators' Salaries, Related Benefits and Taxes. The Commission concludes that while CWS may in fact fill the three (3) operator positions, as of the date of the hearing, these positions remained unfilled. Consequently, the Commission concludes that the three salaries are not expenses which have been actually incurred by the Company and that it would be inappropriate to allow recovery of these salaries in current rates.

The Commission denies the Consumer Advocate's proposed adjustment to disallow the Company's salary increases. The Commission notes that the selection of a 5% cutoff for salary

increases proposed by the Consumer Advocate is arbitrary. In any event, the salary increases provided by the Company to some of its employees at July 1, 1992, and July 1, 1993, two fiscal years, was in fact less than the 5% level recommended by the Consumer Advocate. Consequently, while this Commission specifically declines to approve any salary increases, it denies the Consumer Advocate's proposal to disallow recovery of the salary increases in rates.

Finally, the Commission is not persuaded that it should normalize the Company's capitalization of operators' salaries. The Commission notes that there will be fluctuations in work pertaining to capital projects. The Commission concludes that the difference between the test year capitalization of 5.74% and the Consumer Advocate's three year normalized capitalization of 8.85% is not significantly different and, therefore, normalization is not appropriate.

#### Transportation Expense

The Company proposed to increase its Transportation expense by \$1,322 to reflect a 4% federal gasoline tax increase. The Staff reviewed the Company's historical gasoline cost and determined that the proposed increase was not supported by past experience. In addition, based upon information obtained from AAA Motor Club of the Carolinas that gasoline costs actually decreased from December 1992 to December 1993, the Staff opposed CWS' proposed adjustment.

The Commission denies the Company's proposed adjustment to

its transportation expense. The Commission concludes that the record does not support the proposed increase in expense.

#### Allocation of Common Office Facilities

The Staff proposed to decrease Operation & Maintenance (O&M) Expense by \$2,880 to allocate additional office space to CWS' sister-company, Land & Lab Technology, Inc.<sup>5</sup> for use as a laboratory. The Staff's proposal uses the same charge as Land & Lab Technology, Inc. pays CWS for office facilities. The Company has made no pro forma adjustment to this expense.

The Commission adopts the Staff's adjustment. The Commission notes that CWS presented no evidence contrary to the Staff's proposal.

#### Interest Charged as Rent

The Company and the Staff proposed to adjust O&M and General Expenses to eliminate Interest Charged as Rent and other expenses allocated from Water Service Corporation. The Company's adjustment reduced General Expenses by \$41,347 to reflect the updated June 30, 1993 test year.<sup>6</sup> Since the Staff audited the Company's books at June 30, 1993, and the \$41,347 expense was already eliminated, the Staff did not make a corresponding adjustment.

The Commission finds that the Company and Staff have effectively treated this adjustment in the same manner.

---

5. CWS is currently leasing space to Land & Lab Technology, Inc.

6. At December 31, 1992, CWS had \$41,347 of Water Services Corporation's expenses on its books.

Therefore, the Commission adopts the adjustments as proposed.

#### Non-Allowables

The Company and Staff proposed to adjust O&M and General Expenses to reclassify items typically considered non-allowable for ratemaking purposes. In addition to the Company's adjustments, the Staff eliminated a \$10,000 fine, certain unsupported expense items, Christmas-related expenses, employee recreational expenses, charitable contributions, civic club dues, and charges for flowers. In its rebuttal testimony, CWS asserted that because it was engaged in concurrent audits by several regulatory jurisdictions and outside auditors, it was possible that some of the invoices for items which the Staff determined to be unsupported had been misfiled.

The Commission finds that fines, holiday-related expenses, employee recreational expenses, charitable contributions, civic club dues, and charges for flowers are not appropriate ratepayer expenses. Moreover, the Commission concludes that any difficulty in locating documentation to verify expenses must be borne by the Company. Consequently, the Commission adopts Staff's adjustment for non-allowables.

#### Taxes Other Than Income

Both the Company and the Staff adjusted Taxes Other than Income to reflect increases to CWS' gross receipts and franchise taxes. The Company's and the Staff's adjustments differ due to their different recommendations regarding revenue and rate base items.

The Commission adopts the Staff's adjustment for Taxes Other than Income with any modification that is necessitated by the Commission's ruling on rate case expenses.

Rate Case Expenses

As of the date of the hearing, CWS proposed to recover over two years \$119,115 which includes \$93,161 for the current rate case and the unrecovered amortized expenses for three prior rate case proceedings.<sup>7</sup> CWS admitted on cross-examination that portions of its rate case expenses were estimates for the current proceeding. Tr. Vol. 2 at 198, 220. CWS asserts that a "two year amortization period is more reflective of the frequency of rate cases." Tr. Vol. 2, at 199. Subsequently, CWS filed Hearing Exhibit 11 which indicates that \$11,664 of its current rate case expenses was spent by CWS on preparing its appeal of Order No. 93-402 (May 11, 1993) from Docket No. 91-641-W/S. At the beginning of this hearing, CWS announced its intention to dismiss its appeal of that Order.

The Consumer Advocate proposed that the Commission normalize, rather than amortize, the Company's rate case expenses over two years. Further, the Consumer Advocate proposed that the Commission deny those regulatory commission expenses which were not incurred during the test year.

---

7. These three prior rate cases are as follows:

- 1) Docket No. 88-241, filed in December 1988;
- 2) Docket No. 89-610, filed in February 1990; and
- 3) Docket No. 91-641, filed in December 1991.

In regard to the current rate case, the Commission concludes that only those expenses which could be verified are appropriate for ratemaking purposes. Moreover, in keeping with the terms of the Stipulation in this proceeding (Hearing Exhibit 1), the Commission concludes that all expenses related to CWS' cost of capital witness should be denied. Consequently, the Commission approves \$40,860 for current rate case expenses.

The Commission finds that those unrecovered expenses from prior rate cases of \$146,191 should be allowed. The Commission notes it has already approved these expenses as proper for ratemaking purposes in Order Nos. 93-402, Docket No. 91-641-W/S (May 11, 1993) and 90-694, Docket No. 89-610-W/S (August 1, 1990).

Finally, the Commission concludes that it is appropriate to amortize rate case expenses over three, rather than two, years. The Commission finds that a three year period realistically represents the time period in which utilities file for rate increases, and therefore, it is appropriate to match the recovery of rate case expenses over the same period of time. The Commission concludes that the appropriate adjustment to the Company's per book rate case expense is (\$91,419).

#### Customer Deposits

The Staff proposed to annualize interest on customer deposits at 8% per annum in accordance with Commission Order No. 93-12 (January 13, 1993). Staff's adjustment resulted in a reduction to the Company's per book expense by \$4,756. The Company did not propose this adjustment.

Pursuant to Order No. 93-12 (January 13, 1993), the Commission reduced the mandatory interest on customer deposits from 12% to 8% per year. The Commission concludes that Staff's adjustment annualizing the interest on CWS' customer deposits is appropriate and is hereby approved.

#### Purchased Power

The Company and the Staff adjusted CWS' purchased power to recognize an electric rate increase during the test year. The Staff's adjustment of \$12,985 reflects the 5.1% average rate increase granted to South Carolina Electric & Gas Company (SCE&G) by the Commission in Order No. 93-465 (June 7, 1993), Docket No. 92-619-E, effective for service rendered on or after June 7, 1993. The Company's adjustment of \$15,064 reflects an increase of 5.4%.

The Commission concludes that the Staff's proposed adjustment is appropriate and should be adopted. This adjustment is supported by Order No. 93-465 which granted SCE&G an average rate increase of 5.1%.

#### Water Service Corporation

The Staff and the Company proposed to adjust expenses for the allocation of Water Service Corporation Common Expenses to end-of-period customer equivalents. Some expenses of Water Service Corporation are charged directly to the affiliated utility companies on the basis of actual cost or some other factor causing a direct charge, while other expenses are classified as indirect charges and are allocated to the operating companies via various allocation procedures. The Company's allocation of Water Service

Corporation Common Expenses at December 31, 1992, included not only allocations for two subdivisions within Carolina Water Service (Oakatee and Black Horse Run) which had been sold, but, also, allocations to Wild Dunes Utilities, Inc., (a sister company to Carolina Water Service) which had also been sold. To reflect the ongoing level of expenses to be allocated, Staff updated Water Service Corporation indirect expense allocations to the twelve months ending June 30, 1993, and corrected the allocation percentages for the sold subdivisions/companies as a known and measurable change.

In making its adjustments, the Commission Staff reviewed the allocation procedures of the Company which were consistent with allocations from previous rate cases of affiliated companies. The Commission finds that Staff's adjustments are consistent with the approved allocation procedures and appropriately reflect the proper level of expenses associated with the services provided by Water Service Corporation to CWS. The Commission Staff's adjustments to expenses for allocation of Water Service Corporation are hereby adopted.

#### Allocation Between Operating Companies

The Staff made an adjustment to allocate Insurance, Transportation Expenses, Depreciation and Office Expenses between operating companies based on customers served and end-of-period customer equivalents. Staff reduced O&M Expenses by (\$1,084), reduced General Expenses by (\$8,475) and reduced Depreciation by (\$2,981) for a total reduction of (\$12,540). The Company proposed

an adjustment of (\$3,075) to General Expenses.

In its adjustments, Staff eliminated expense allocations to Black Horse Run Subdivision which has been sold and is no longer operated by CWS. Staff also eliminated expenses allocated from Wild Dunes Utilities and substituted expenses for the new office in Mt. Pleasant which is serving those customers formerly served by Wild Dunes Utilities. The Commission finds that Staff's adjustments appropriately reflect the proper level of expenses associated with the services provided by CWS to customers. The Commission Staff's adjustments are hereby adopted.

#### Expense Variances

The Consumer Advocate contends that certain of the Company's expenses were significantly larger on June 30, 1993, than on June 30, 1992.<sup>8</sup> He states that the Company has failed to provide sufficient evidence which indicates the increased level of expense is representative of ongoing expenses. Consequently, the Consumer Advocate proposes to amortize certain test year expenses over three years.

The Commission finds and concludes that while it is necessary to make adjustments to test year data which is significantly non-representative of ongoing expenses, no such adjustment is appropriate for the expense variances pointed out here by the Consumer Advocate. The Consumer Advocate only compared the level

---

8. Specifically, the Consumer Advocate challenges the Company's legal fees, engineering fees, temporary employment, maintenance supplies, maintenance repairs, electric equipment repairs, sewer rodding, and other maintenance expenses.

of test year expenses with one prior year. The Commission finds such a comparison of limited value in determining whether the Company's test year expenses were significantly higher than historical expenses. The Commission denies the Consumer Advocate's proposed adjustment.

#### Chemical Costs

The Consumer Advocate contends that the Commission should adjust the Company's actual test year chemical costs by (\$6,298) to reflect the fact that the test year was dryer than normal and, therefore, more chemicals were used to treat a larger volume of water.

The Commission declines to adopt this adjustment. As noted by Staff witness Thomas, if at all, it would be proper to reduce the Company's chemical expenses to recognize a dry test year if the test year revenues were also adjusted to reflect the dry test year. Tr. Vol. 2, at 167. The Consumer Advocate has not proposed a corresponding adjustment to the Company's revenues. Further, this Commission has not approved a weather normalization adjustment for water and sewer utilities and declines to do so in the present hearing.

#### Deferred Charges

The Consumer Advocate proposes that the Commission disallow approximately \$75,000 in Deferred Charges Expenses. The Consumer Advocate asserts that since CWS did not request advance approval to treat certain expenses as deferred that deferred treatment should be denied. In Order No. 90-694, Docket No. 89-610-W/S, dated

August 1, 1990, the Commission approved recovery of Hugo related expenses under deferred treatment. While CWS has not requested prior approval of the other expenses such as tank maintenance and main breaks, in prior decisions the Commission has approved recovery of costs related to these expenses and, therefore, will allow CWS to recover these costs. Consequently, the Commission denies the Consumer Advocate's proposed adjustment.

#### Depreciation Expense

Both the Company and the Staff proposed to annualize Depreciation Expense based on year-end Plant-in-Service and pro forma additions to plant. CWS' adjustment increased Depreciation & Amortization by \$98,375. Staff's adjustment increased that account by \$44,442. The difference in these adjustments is related to Staff's allocation of Water Service Corporation rate base at June 30, 1993, rather than December 31, 1992, as proposed by the Company, use of a 20% depreciation rate on transportation equipment rather than 25% as proposed by the Company, and the difference in Staff and Company's Construction Work in Progress treatment. Finally, CWS included depreciation on plant projected to be in service at May 1994 while Staff included depreciation on completed plant in service at February 1994.

The Commission adopts the Staff's adjustment to depreciation expense. As noted in its discussion below, the Commission finds and concludes that the updated level of depreciation expense for Water Service Corporation at June 30, 1993, is appropriate. Further, the Commission concludes that only those plant additions

which were completed and in service at February 1994 are subject to depreciation treatment since these plant items have been verified by the Staff. Likewise, the Commission accepts the Staff's adjustment to Construction Work in Progress. Finally, the Commission adopts the Staff's recommendation to allow depreciation on transportation equipment over five, rather than four, years.

#### Customer Growth

The Company and the Staff computed Customer Growth based on the formula historically used by the Commission and applied to net operating income, not only for water and sewer companies, but for all regulated utilities. The Consumer Advocate's witness recommended a Customer Growth adjustment to revenue only with no corresponding adjustment to expenses. While it may be true that certain fixed expenses will not vary with an additional customer, the Commission cannot agree that no expenses would increase as a result of adding new customers. The Commission's method assumes an equal contribution to net operating income for each customer added to the system, and the Commission sees no reason to depart from its established practice of computing Customer Growth.

#### EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 9 AND 10.

Based on the Commission's determinations concerning the Accounting and Pro Forma adjustments to the Company's revenues and expenses, and its determination as to the appropriate level of revenues and expenses, (see, Evidence and Conclusions for Finding

of Fact No. 13) net income for return is found by the Commission as illustrated in the following Table:

TABLE A

NET INCOME FOR RETURN

BEFORE RATE INCREASE

Operating Revenues	\$4,678,337
Operating Expenses	<u>3,815,693</u>
Net Operating Income	862,644
Interest During Construction	-0-
Customer Growth	<u>17,652</u>
Net Income for Return	<u>\$ 880,296</u>

AFTER RATE INCREASE

Operating Revenues	\$5,342,879
Operating Expenses	<u>4,068,817</u>
Net Operating Income	1,274,062
Interest During Construction	-0-
Customer Growth	<u>26,474</u>
Net Income for Return	<u>\$1,300,536</u>

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 11

The evidence supporting the findings concerning proper methodology and level of cash working capital and proper items to be included in the Company's rate base can be found in the exhibits and testimony of Company witnesses Cuddie and Murphy, Consumer Advocate witness Bleiweis and Commission Staff witnesses Burgess and Thomas. (See Hearing Exhibit Nos. 2, 6, 8 and 9). The rate base, as allocated to the Company's operations, is composed of the value of the Company's property used and useful in providing water and sewer service to the public, plus materials and supplies, and an allowance for cash working capital, less accumulated

depreciation, accumulated deferred income tax (liberalized depreciation), contributions in aid of construction, advances in aid of construction, plant acquisition adjustments, cost in excess of book value and customer deposits.

Prior to the date of the hearing, the Commission Staff conducted an audit and examination of the Company's books and records, including rate base items, with plant additions and retirements. On the basis of this audit, the exhibits and the testimony contained in the entire record of the hearing, the Commission can determine and find proper balances for the components of the Company's rate base and other items. The Commission's determinations relative to the Company's rate base for its water and sewer operations appear in the paragraphs below.

#### Gross Plant In Service

The Commission has traditionally used the regulatory accounting methodology recognized as "original cost less accumulated depreciation" in the determination of value of a utility's plant in service. The record of the instant proceeding presents no justification for a departure from this methodology which was utilized by the Commission Staff in calculating the Company's jurisdictional gross plant in service per books of \$25,186,568. The Company proposed adjustments to Plant in Service totaling \$1,199,604. The net effect of Staff's adjustments to Plant in Service is an increase of \$898,479.

The Commission Staff proposed adjustments to Plant in Service for the effects of Staff's adjustments to include plant additions

actually completed at February 1994, to eliminate investment items associated with Oakatee and Black Horse Run subdivisions which were sold during the test year, to exclude non-allowable plant sample items, to include an allocated portion of Water Service Corporation rate base excluding those items previously found to be non-allowable by the Commission, to capitalize a portion of the end of period wage adjustment, and to reflect the proper allocation of vehicles and computers to CWS. Based upon the Commission's discussion and treatment of the Depreciation Expense, the Commission approves Staff's adjustments to Plant in Service.

As the Commission has approved the inclusion of plant additions completed as of February 1994, the Commission also approves a corresponding reduction in Construction Work in Progress of (\$332,057) to reflect the amount of work completed.

#### Accumulated Depreciation

In determining the proper rate base for utilities, the Commission has consistently applied a methodology which reduces the figure for gross plant used and useful in providing public service by a reserve for depreciation and amortization. This reserve for depreciation and amortization for CWS' operations reflected a "per books" figure of \$1,746,997.

Both the Company and the Staff proposed to adjust Accumulated Depreciation for the annualization of depreciation expense. The Company proposed an adjustment of (\$98,375), and Staff proposed an adjustment of (\$44,442).

The Company and Staff also proposed adjustments to Accumulated

Depreciation in conjunction with the allocation of Water Service Corporation rate base to CWS. The Company proposed to increase Accumulated Depreciation by (\$191,315) while Staff proposed an increase of (\$169,616). Staff also proposed an adjustment to allocate transportation equipment and computers to and from CWS based on customers served. The adjustment includes allocation from CWS to South Carolina Utilities, Southland Utilities and United Utilities, and from CWS of North Carolina to Riverhills.

With the expense adjustments previously approved herein, the Commission is of the opinion, and so finds, that Staff's adjustments should be approved and that the Company's per books reserve for depreciation and amortization for South Carolina operations should be increased by (\$206,183).

#### Cash Working Capital

Both the Company and the Staff propose to adjust cash working capital for adjustments to O&M Expenses. The Company proposed to decrease cash working capital by (\$23,987) for the effect of accounting and pro forma adjustments to O&M Expenses. Staff proposed to decrease cash working capital by (\$30,695) for the effect of corresponding adjustments to per book numbers. The Consumer Advocate agreed with the Company that cash working capital should be based on pro forma, not per book, O&M Expenses.

The Commission has consistently considered an allowance for cash working capital to be an appropriate item for inclusion in the rate base of a water and sewer utility. By permitting a cash working capital allowance, the Commission acknowledges the

requirement for capital expenditures related to the routine operations of the utility. The Company's use of "as adjusted" figures in calculating its cash working capital allowance is not consistent with the Commission's accepted practice of using corrected "per book" numbers in the calculation. Therefore, the Commission concludes Staff's adjustment is appropriate and hereby approved.

#### Deferred Charges

The Company included \$437,840 of deferred charges in its rate base. Deferred charges include tank maintenance, main breaks, etc., or any item for which an expenditure has been made but for which the expense has not been reflected in the income statement. The Consumer Advocate and the Staff opposed the inclusion of deferred charges in rate base.

The Commission considers deferred charges to be an element on which investors are not entitled to earn a return. In the past, the Commission has denied the inclusion of deferred charges in rate base. The Commission believes the Company is asking the Commission to make a selective adjustment to its methodology for determining rate base. The Commission further believes that the Company has presented no reason for the Commission to change its present method of excluding deferred charges from rate base. Therefore, the Commission denies the Company's proposal and finds that \$437,840 should be deducted from rate base as proposed by the Consumer Advocate and the Commission Staff.

Customer Deposits

Staff proposed an adjustment of \$4,756 to customer deposits for annualized interest on customer deposits. Staff also proposed an adjustment increasing customer deposits for accrued interest by (\$147,129). The net effect of Staff's adjustment is a deduction from rate base of (\$142,373). The Commission believes that customer deposits and the accrued interest on customers' deposits are elements upon which the Company's investors are not entitled to earn a return. Therefore, the Commission approves the Staff's adjustments reducing rate base by (\$142,373).

The Company's rate base, as herein adjusted and determined by the Commission to be appropriate for the purposes of this proceeding, is set forth as follows:

TABLE B

ORIGINAL COST RATE BASE

JUNE 30, 1993

Gross Plant in Service	\$26,085,047
Accumulated Depreciation	(1,953,180)
Net Plant in Service	<u>24,131,867</u>
Cash Working Capital	370,743
Construction Work in Progress (CWIP)	1,927
Contributions in Aid of Construction	(11,393,173)
Advances in Aid of Construction	( 4,100)
Plant Acquisition Adjustment	( 679,439)
Excess Book Value	( 796,014)
Accumulated Deferred Income Taxes	( 617,334)
Customers' Deposits	<u>( 361,407)</u>
TOTAL RATE BASE	<u>\$10,653,070</u>

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 12 AND 13

Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in the Hope Natural Gas decision, supra, the utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and...that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

Neither S.C. Code Ann. §58-5-290 (1976) nor any other statute prescribes a particular method to be utilized by the Commission to determine the lawfulness of the rates of a public utility. For ratemaking purposes, this Commission examines the relationships between expenses, revenues, and investment in an historic test period because such examination provides a constant and reliable factor upon which calculation can be made to formulate the basis for determining just and reasonable rates. This method was recognized and approved by the Supreme Court for ratemaking

purposes involving utilities in Southern Bell Telephone and Telegraph Co. v. The Public Service Commission of S.C., 270 S.C. 590, 244 S.E.2d 278 (1978).

For water and sewerage utilities, where the utility's rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" as guides in determining just and reasonable rates, instead of examining the utility's return on its rate base. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues. The obverse side of this calculation, the operating margin, is determined by dividing net operating income for return by the total operating revenues of the utility.

The Company presented witness Spann to support rate base treatment for ratemaking purposes.<sup>9</sup> As noted by the Stipulation in this proceeding, the Staff believes that the Commission has appropriately applied an operating margin for water and sewer companies in the past; by signing the Stipulation, the Consumer Advocate did not necessarily agree that CWS should be regulated based upon a rate of return on rate base methodology.

The Commission will not adopt a rate of return on rate base

---

9. The Company, Consumer Advocate, and Staff also agreed "that should the Commission determine that CWS be regulated upon a rate of return methodology that the return on equity in this proceeding be set within a range of 11.25% to 11.75% with rates in this proceeding being set at 11.50%." Stipulation at 2.

approach. The Commission finds that the evidence presented concerning rate of return is insufficient to convince the Commission that such an approach should be adopted in this proceeding. The Commission finds that its use of the operating margin has resulted in fair rates to both the utility and ratepayer and that it will not alter its method of regulation in this proceeding. In this proceeding the Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and the fixing of just and reasonable rates. This method was recognized as an acceptable guide for ratemaking purposes in Patton v. South Carolina Public Service Commission, 280 S.C. 288, 312 S.E.2d 257 (1984).

The following Table indicates the Company's gross revenues for the test year, after accounting and pro forma adjustments under the presently approved schedules; the Company's operating expenses for the test year after accounting and pro forma adjustments; and the operating margin under the presently approved schedules for the test year.

TABLE C

Operating Revenues	\$4,678,337
Operating Expenses	<u>3,815,693</u>
Net Operating Income (Loss)	862,644
Add: Customer Growth	<u>17,652</u>
Total Income for Return (Loss)	<u><u>880,296</u></u>
Operating Margin (After Interest)	6.85%

The following Table shows the effect of the Company's proposed rate schedule, after accounting and pro forma adjustments approved

herein:

TABLE D

Operating Revenues	\$5,482,829
Operating Expenses	4,122,125
Net Operating Income	<u>1,360,704</u>
Add: Customer Growth	28,186
Total Income for Return	<u>1,388,890</u>
Operating Margin (After Interest)	15.12%

The Commission is mindful of those standards delineated in the Bluefield decision, supra, and of the balance between the respective interests of the Company and of the consumer. The Commission has considered the spectrum of relevant factors in this proceeding: the revenue requirements for the Company, the proposed price for which the Company's service is rendered, the quality of that service, and the effect of the proposal upon the consumer, among others.

The three fundamental criteria of a sound rate structure have been characterized as follows:

...(a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates (1961), p. 292.

The Commission has considered the proposed increase presented by the Company in light of the various standards to be observed and

the interests represented before the Commission. The Company presented the testimonies of witnesses Cuddie, Murphy, and Lewis who provided information concerning the capital improvements to the Company's water and wastewater treatment facilities, the increasing cost of complying with the Safe Drinking Water Act, the Clean Water Act, and other regulatory requirements, as well as the Company's efforts at being more responsive to customer complaints.

The Commission has also considered the impact of the proposed increase on the ratepayers of the Company. The Commission realizes that despite the small number of ratepayers testifying in opposition to the proposed increase, increases in rates can result in hardship on South Carolina's consumers.

The Commission must balance the interests of the Company -- the opportunity to make a profit or earn a return on its investment, while providing adequate water and sewerage service -- with the competing interests of the ratepayers -- to receive adequate service at a fair and reasonable rate. In balancing these competing interests, the Commission has determined that the proposed schedule of rates and charges is unjust and unreasonable and inappropriate for both the Company and its ratepayers.

Upon this finding it is incumbent upon the Commission to approve rates which are just and reasonable, not only producing revenues and an operating margin within a reasonable range, but which also distribute fairly the revenue requirements, considering the price for which the Company's service is rendered and the quality of that service. The Commission finds that the Company has

expended a considerable amount to improve and upgrade the water and sewerage system so that its customers may continue to receive adequate service. The Commission finds that while the proposed level of revenues and corresponding rates and charges are unreasonable, the level of revenues determined to be reasonable results from the Company's efforts in making capital investments in the system and in complying with increasing regulatory standards. In light of those factors as previously discussed and based upon the record on the instant proceeding, the Commission concludes that a fair operating margin that the Company should have an opportunity to earn is 13.86%, which requires annual operating revenues of \$5,342,879. The following Table reflects an operating margin of 13.86%:

TABLE E

Operating Revenues	\$5,342,879
Operating Expenses	<u>4,068,817</u>
Net Operating Income	1,274,062
Add: Customer Growth	<u>26,474</u>
Total Income for Return	<u>1,300,536</u>
Operating Margin (After Interest)	<u>13.86%</u>

While the Commission is aware of the impact on the customers of granting additional annual revenues in the amount of \$664,542, the Company has provided justification for such an increase, and the schedule of rates and charges approved herein depict just and reasonable rates.

Additionally, it should be noted that, rather than eliminating the investment, revenue, and expenses associated with the

Riverhills Subdivision, Staff has imputed revenue utilizing the herein approved rates. The procedure provides a matching of revenue expenses and investment, and eliminates subsidies between customers. The Commission agrees with Staff's computation.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACTS NOS. 15 AND 16

The Commission will spread the increase among the various services offered by the Company in the following manner:

Water

The Company is currently charging \$6.00/month for its basic facility charge (BFC) for residential water service in the Glen Village Subdivision and \$7.00/month BFC in all other residential subdivisions. The Company proposes to increase its BFC for all residential subdivisions to \$8.00/month. The Commission hereby approves the \$8.00/month BFC as reasonable.<sup>10</sup>

The Company proposed to increase its BFC for commercial customers as follows:

<u>METER SIZE</u>	<u>PRESENT</u>	<u>PROPOSED</u>
5/8" METER	\$7.00	\$ 8.00
1" METER	\$17.50	\$ 20.00
1.5" METER	\$35.00	\$ 40.00
2" METER	\$56.00	\$ 64.00
3" METER	\$112.00	\$128.00
4" METER	\$175.00	\$200.00

In order to achieve the established operating margin, the

---

10. The BFC for Riverhills Subdivision will remain as approved by Commission Order No. 93-420 (May 11, 1993) in Docket No. 91-641-W/S. See footnotes 12, 13, and 14.

Commission approves the BFC for commercial customers as proposed.<sup>11</sup>

The Company proposed to increase the commodity charge for water from \$2.30/1,000 gallons for Glen Village, \$2.30/1,000 gallons for Oak Grove and Calvin Acres, \$2.60/1,000 gallons for Idlewood and Heatherwood, and \$2.75/1,000 gallons for other subdivisions to \$3.32/1,000 gallons for both residential and commercial customers.<sup>12</sup> To achieve the approved operating margin and level of revenues, the commodity charge should be increased to \$3.24/1,000 gallons for both residential and commercial customers.

The Company proposed to increase the water distribution charge of \$1.50/1,000 gallons to \$1.85/1,000 gallons for those customers for whom CWS may provide bulk water service. CWS has provided an exhibit (Hearing Exhibit #2) which indicates that the cost of distributing purchased water, after receipt of an \$8.00/month BFC, is \$1.85/1,000 gallons based on average usage of 6,600 gallons/month per customer. This exhibit was not challenged at the hearing and the rate was fully justified. Therefore, the Commission approves 1.85/1,000 gallons as a water distribution charge.<sup>13</sup>

---

11. The same BFC shall also apply to those customers to whom CWS distributes bulk water.

12. The commodity charge for Riverhills Subdivision will remain as approved by Commission Order No. 93-420, (May 11, 1993) in Docket No. 91-641-W/S.

13. The increase to the water distribution charge is not applicable to Riverhills Subdivision. The appropriate water distribution charge for Riverhills Subdivision shall be considered in a separate proceeding at such time as a bulk water contract is filed with the Commission.

Sewer

The Company presently charges its sewer collection and treatment customers the monthly charges set forth in Table F below and proposes to increase that charge as noted in Table F.

TABLE F

	PRESENT	PROPOSED
GLEN VILLAGE PER MONTH	\$18.75	\$29.77
OAK GROVE PER MONTH	\$20.00	\$29.77
MOBILE HOMES PER MONTH	\$19.50	\$22.32
RESIDENTIAL PER MONTH	\$26.00	\$29.77
COMMERCIAL PER MONTH	\$26.00/SFE	\$29.77/SFE

The Company currently charges its collection only customers \$15.00/month and proposes to increase this charge to \$18.00/month.

To achieve the approved operating margin and level of revenues, the proposed charge for collection and treatment customers should be increased to \$29.00/month for residential customers, \$21.75/month for mobile home customers, and \$29.00/SFE/month for commercial customers. Further, the proposed charge for collection only customers should be increased to \$18.00/month.<sup>14</sup> This rate was fully justified by Hearing Exhibit #2.

---

14. The increase to the sewer collection only fee is not applicable to Riverhills Subdivision. The appropriate sewer collection fee for Riverhills Subdivision shall be considered at such time as a sewer collection contract is filed with the Commission.

Miscellaneous Revenues

Tap Fees

The Company proposed to increase its water and sewer tap fees from \$100 per SFE to \$300 per SFE. In Hearing Exhibit #4 the Company specified the labor costs associated with connecting a customer to the utility's system. The labor cost associated with installing a water tap was \$348.84 and \$326.94 for a sewer tap. The Company did not include any cost for the plant capacity associated with providing service to the new customers.<sup>15</sup>

The Consumer Advocate contends that because contractors often incur the expense of connecting a new home to the utility's system, CWS should only be permitted to charge a tap fee when it actually incurs the expense to make the tap.

The Commission hereby approves the requested water and sewer tap fee increase from \$100 to \$300 per SFE.<sup>16</sup> The Commission concludes that the proposed charge of \$300 was amply justified by the record. Moreover, the Commission concludes that CWS' system was constructed to meet the needs of all customers and, therefore, all new customers should be required to pay the approved tap fee, whether or not the tap was made by the Company or a developer. The Commission notes that CWS has not attempted to recoup a portion of its plant capacity in its proposed \$300 tap fee.

---

15. See, 26 S.C. Regs. 103-502.11 and 702.14 (Supp. 1993).

16. The increase to the tap fee charge is not applicable to Riverhills Subdivision, but the tap fee will remain as approved by Order No. 93-420, (May 11, 1993) in Docket No. 91-641-W/S.

#### New Account Charge

The Company currently charges \$20.00 as a New Account Charge for new water customers in the Calvin Acres and Glen Village subdivisions and \$27.00 as a New Account Charge for customers in other subdivisions. The Company proposes to increase this charge to \$28.00.

The Commission has reviewed the evidence presented by the Company in support of the \$1.00 increase. The Commission agrees with Staff witness Burgess' testimony that all of the listed expenses are not properly attributable to a New Account Charge. Tr. Vol. 2, p. 177. Therefore, the Commission denies the proposed increase for the New Account Charge.

#### Sewer Notification Fee

CWS currently charges \$4.00 to customers to whom it mails the sewer disconnection notification required by 26 S.C. Regs. 103-535.1 (Supp. 1993). The Company proposes to increase this charge to \$7.00.

The Commission has reviewed the documentation supporting the proposed increase and finds that current rate adequately covers the cost for preparing and mailing the sewer disconnection notice. Therefore, the Commission denies the proposed increase to Sewer Notification Fee.

#### Plant Impact Fee

CWS has not requested an increase to its plant impact fee. However, in keeping with CWS' accounting procedures and this Commission's instructions to other utilities, the Commission hereby

instructs CWS to escrow its plant impact fee.

The Commission finds and concludes that the rates and charges approved herein achieve a balance between the interests of the Company and those of its customers. These rates and charges result in a reasonable attainment of the Commission's ratemaking objectives in light of applicable statutory safeguards.

IT IS THEREFORE ORDERED:

1. The proposed schedules of rates and charges by the Company are found to be unreasonable and are hereby denied.
2. The schedule of rates and charges attached hereto as Appendix A are hereby approved for service rendered on or after the date of this Order. The schedules are deemed to be filed with the Commission pursuant to S.C. Code Ann. §58-5-240 (1976), as amended.
3. Should these schedules not be placed in effect until three (3) months from the effective date of this Order, the schedules shall not be charged without written permission from the Commission.
4. The Company shall maintain its books and records for water and sewer operations in accordance with the NARUC Uniform System of Accounts for Class B Water and Sewer Utilities, as adopted by this Commission.

instructs CWS to escrow its plant impact fee.

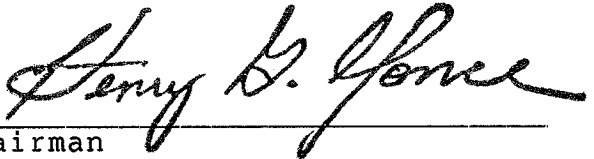
The Commission finds and concludes that the rates and charges approved herein achieve a balance between the interests of the Company and those of its customers. These rates and charges result in a reasonable attainment of the Commission's ratemaking objectives in light of applicable statutory safeguards.

IT IS THEREFORE ORDERED:

1. The proposed schedules of rates and charges by the Company are found to be unreasonable and are hereby denied.
2. The schedule of rates and charges attached hereto as Appendix A are hereby approved for service rendered on or after the date of this Order. The schedules are deemed to be filed with the Commission pursuant to S.C. Code Ann. §58-5-240 (1976), as amended.
3. Should these schedules not be placed in effect until three (3) months from the effective date of this Order, the schedules shall not be charged without written permission from the Commission.
4. The Company shall maintain its books and records for water and sewer operations in accordance with the NARUC Uniform System of Accounts for Class B Water and Sewer Utilities, as adopted by this Commission.

5. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Executive Director

(SEAL)

**DISSENT (COMMISSIONER ARTHUR):** I respectfully dissent from the decision of the Commission. In my opinion the Commission should not have granted the Company such an exorbitant increase.

In this proceeding, the Commission granted the Company an operating margin of 13.86%. This operating margin results in a 14.20% increase in revenues. Earlier this month, the Commission granted Heater Utilities, Inc. an operating margin of 8.04%. I see no reason for the disparity in treatment of these two companies. In my opinion, CWS presented no evidence for the much higher return which it was granted.

Secondly, I disagree with the result reached in this case based on the Stipulation agreed to by CWS, the Consumer Advocate, and the Commission Staff. While I realize that the Stipulation was executed in the event the Commission decided to regulate CWS on a rate of return on Common Equity methodology, CWS agreed in this Stipulation to a return which would have produced less revenue than

the revenue which will be produced by the operating margin granted. Had the Commission decided to use the rate of return on Common Equity methodology to regulate CWS, CWS had agreed to a return which would have equated to an operating margin between 10.84% and 11.23%. Even though the Commission refused to regulate CWS on the basis of rate of return on rate base, I believe the Commission should have granted an operating margin which was no higher than the operating margin which would have resulted from the Stipulation.

APPENDIX A

CAROLINA WATER SERVICE, INC.

FILED PURSUANT TO DOCKET NO. 93-738-W/S- ORDER NO. 94-484  
EFFECTIVE DATE: MAY 31, 1994

SCHEDULE OF RATES AND CHARGES  
WATER

1. Monthly Charges

Residential

Base Facilities Charge - Residential  
Monthly charge per single family  
house, condominium, mobile home  
or apartment unit:

\$8.00 per unit

Commodity Charge:

\$3.24 per 1,000  
gallons or 134 cft

Commercial

5/8" meter	\$ 8.00
1" "	\$ 20.00
1.5" "	\$ 40.00
2" "	\$ 64.00
3" "	\$128.00
4" "	\$200.00

Riverhills

Residential

Base Facilities Charge - Residential  
Monthly charge per single family  
house, condominium, mobile home  
or apartment unit:

\$7.00 per unit

Commodity Charge:

\$2.75 per 1,000  
gallons or 134 cft

Commercial

5/8" meter	\$ 7.00
1" "	\$ 17.50
1.5" "	\$ 35.00
2" "	\$ 56.00
3" "	\$112.00
4" "	\$175.00

2. Charge for Water Distribution Only

Where water is purchased from a government body or agency or other entity for distribution and resale by the Company, the following rates apply:

Residential

Base facilities Charge - Residential  
Monthly charge per single family  
house, condominium, mobile home  
or apartment unit:

\$8.00 per unit

Commodity charge:

\$1.85 per 1,000  
gallons or 134 cft

Commercial

Monthly charge  
by meter size.

5/8"	meter	\$ 8.00
1"	"	\$ 20.00
1.5"	"	\$ 40.00
2"	"	\$ 64.00
3"	"	\$128.00
4"	"	\$200.00

Commodity charge:

\$1.85 per 1,000  
gallons or 134 cft

Riverhills

Residential

Base facilities Charge - Residential  
Monthly charge per single family  
house, condominium, mobile home  
or apartment unit:

\$7.00 per unit

Commodity charge:

\$1.50 per 1,000  
gallons or 134 cft

Commercial

Monthly charge  
by meter size.

5/8"	meter	\$ 7.00
1"	"	\$ 17.50
1.5"	"	\$ 35.00
2"	"	\$ 56.00
3"	"	\$112.00
4"	"	\$175.00

Commodity charge:

\$1.50 per 1,000  
gallons or 134 cft

The Utility will also charge for the cost of water purchased from the government body or agency, or other entity. The charges imposed or charged by the government body or agency, or other entity providing the water supply will be charged to the Utility's affected customers on a pro rata basis without markup.

Commercial customers are those not included in the residential category above and include, but not limited to hotels, stores, restaurants, offices, industry, etc.

The Utility will, for the convenience of the owner, bill a tenant. However, all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure to pay for services rendered to a tenant may result in service interruptions.

When, because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit separately, service will be provided through a single meter, and consumption of all units will be averaged; a bill will be calculated based on that average and result multiplied by the number of units served by a single meter.

### 3. Nonrecurring Charges

- A) Water Service Connection (New connections only)    \$300 per SFE\*
- B) Plant Impact Fee (New connections only)                \$400 per SFE\*

#### Riverhills

- A) Water Service Connection (New connections only)    \$100 per SFE\*
- B) Plant Impact Fee (New connections only)                \$400 per SFE\*

The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating of a non residential customer is less than one (1). If the equivalency rating of a non residential customer is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the water system is requested.

4. Account Set-Up and Reconnection Charges

a. Customer Account Charge - for new customers only.

Calvin Acres	\$20.00
Glen Village	\$20.00
All Others	\$27.00

b. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of thirty five dollars (\$35.00) shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-732.5. Customers who ask to be reconnected within nine months of disconnection will be charged the monthly base facility charge for the service period they were disconnected. The reconnection fee shall also be due prior to reconnection if water service has been disconnected at the request of the customer.

5. Billing Cycle

Recurring charges will be billed bimonthly in arrears.  
Nonrecurring charges will be billed and collected in advance of service being provided.

6. Tax Multiplier

Except as otherwise provided by contract approved by the South Carolina Public Service Commission, amounts paid or transferred to the Utility by customers, builders, developers or others, either in the form of cash or property, shall be increased by a cash payment in an amount equal to the income taxes owed on the cash or property transferred to the Utility by customers, builders, developers, or others and properly classified as a contribution or advance in aid of construction in accordance with the Uniform System of Accounts. Included in this classification are water service connection charges and plant impact fees.

7. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to connect to its water system. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, to pay the appropriate fees and charges set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service, unless water supply is unavailable or

APPENDIX A  
DOCKET NO. 93-738-W/S - ORDER NO. 94-484  
MAY 31, 1994  
PAGE FIVE

---

unless the South Carolina Department of Health and Environmental Control or other government entity has restricted the Utility from adding for any reason additional customers to the serving water system. In no event will the Utility be required to construct additional water supply capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding water supply capacity to the affected water system.

\* A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Environmental Control Guidelines for Unit Contributory Loadings for Wastewater Treatment--1990.

SCHEDULE RATES AND CHARGES  
SEWER

1. Monthly Charges

Residential - monthly charge per  
single-family house, condominium,  
villa, or apartment unit: \$29.00 per unit

Mobile Homes - monthly charge: \$21.75 per unit

Commercial - monthly charge: \$29.00 per SFE\*

Riverhills

Residential - monthly charge per  
single-family house, condominium,  
villa, or apartment unit: \$26.00 per unit

Mobile Homes - monthly charge: \$19.50 per unit

Commercial - monthly charge: \$26.00 per SFE\*

Commercial customers are those not included in the residential  
category above and include, but are not limited to, hotels, stores,  
restaurants, offices, industry, etc.

Charge for Sewage Collection Service Only

When sewage is collected by the Utility and transferred to a  
government body or agency, or other entity, for treatment, the  
Utility's rates are as follows:

Residential - monthly charge per  
single-family house, condominium,  
or apartment unit \$18.00 per unit

Commercial - monthly charge per  
single-family equivalent \$18.00 per SFE\*

Riverhills

Residential - monthly charge per  
single-family house, condominium,  
or apartment unit \$15.00 per unit

Commercial - monthly charge per  
single-family equivalent \$15.00 per SFE\*

The Utility will also charge for treatment services provided by the government body or agency, or other entity. The rates imposed or charged by the government body or agency, or other entity providing treatment will be charged to the Utility's affected customers on a pro rata basis, without markup. Where the Utility is required under the terms of the 201/208 Plan to interconnect to the sewage treatment system of a government body of agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will be charged to the Utility's affected customers on a pro rata basis, without markup.

#### Solids Interceptor Tanks

For all customers receiving sewage collection service through an approved solids interceptor tank, the following additional charges shall apply.

#### Pumping Charge

At such time as the Utility determines through its inspection that excessive solids have accumulated in the interceptor tank, the Utility will arrange for pumping the tank and will include \$120.00 as a separate item in the next regular billing to the customer.

#### Pump Repair or Replacement Charge

If a separate pump is required to transport the customer's sewage from solids interceptor tank to the Utility's sewage collection system, the Utility will arrange to have this pump repaired or replaced as required and will include the cost of such repair or replacement and may be paid for over a one year period.

#### Visual Inspection Port

In order for a customer who uses a solids interceptor tank to receive sewage service from the Utility or to continue to receive such service, the customer shall install at the customer's expense a visual inspection port which will allow for observation of the contents of the solids interceptor tank and extraction of test samples therefrom. Failure to provide such a visual inspection port after timely notice of not less than thirty (30) days shall be just cause for interruption of service until a visual inspection port has been installed.

2. Nonrecurring Charges

- A) Sewer Service Connection (New connections only) \$300 per SFE\*
- B) Plant Impact Fee (New connections only) \$400 per SFE\*

Riverhills

- A) Sewer Service Connection (New connections only) \$100 per SFE\*
- B) Plant Impact Fee (New connections only) \$400 per SFE\*

The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating of a non residential customer is less than one (1). If the equivalency rating of a non residential customer is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the sewer system is requested.

3. Notification, Account Set-Up and Reconnection Charges

a. Notification Fee

A fee of five dollars (\$4.00) shall be charged each customer to whom the Utility mails the notice as required by Commission Rule R. 103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the cost.

b. Customer Account Charge - for new customers only.

Glen Village	\$20.00
All Others	\$27.00

A one-time fee to defray the costs of initiating service. This charge will be waived if the customer also takes water service.

- c. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of two hundred fifty dollars (\$250.00) shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-532.4. Where an elder valve has been previously installed, a reconnection charge of thirty-five dollars (\$35.00) shall be due. Customers who ask to be reconnected within nine months of disconnections will be charged the monthly service charge for the service period they were disconnected.

4. Billing Cycle

Recurring charges will be billed bimonthly in arrears.  
Nonrecurring charges will be billed and collected in advance of service being provided.

5. Tax Multiplier

Except as otherwise provided by contract approved by the South Carolina Public Service Commission, amounts paid or transferred to the Utility by customers, builders, developers or others, either in the form of cash or property, shall be increased by a cash payment in an amount equal to the income taxes owed on the cash or property transferred to the Utility by customers, builders, developers, or others and properly classified as a contribution or advance in aid of construction in accordance with the Uniform System of Accounts. Included in this classification are sewer service connection charges and plant impact fees.

6. Toxic and Pretreatment Effluent Guidelines

The Utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") or the South Carolina Department of Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR §129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CFR §403.5 and 403.6 are to be processed according to the pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.

7. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to discharge acceptable wastewater into one of its sewer systems. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to an

APPENDIX A

DOCKET NO. 93-738-W/S - ORDER NO. 94-484

MAY 31, 1994

PAGE TEN

---

appropriate connection point, to pay the appropriate fees and charges set forth in this rate schedule and to comply with the guidelines and standards hereof, shall not be denied service, unless treatment capacity is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has restricted the Utility from adding for any reason additional customers to the serving sewer system.

In no event will the Utility be required to construct additional wastewater treatment capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding wastewater treatment capacity to the affected sewer system.

\* A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Environmental Control Guidelines for Unit Contributory Loading for Wastewater Treatment--1990. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee.